

**SACS Accounting Committee Meeting Notes**  
**March 26, 2003**

I. Introductions and Notices

- A. The minutes from the past meetings are all on the Internet at  
<http://www.cde.ca.gov/fiscal/sacs/accountingrecap.htm>

II. Accounting Issues

A. Accounting for Direct Support Costs

1. New Objects 7370, Transfers of Direct Support Costs and 7380, Transfers of Direct Support Costs - Interfund  
See **Attachment A** for detailed information regarding these new objects.
2. Differences between transfers of support costs and transfers of direct costs  
CDE reviewed the definitions of the different types of transferable costs per CSAM:
  - a. Direct Costs Transfers (Objects 5710 / 5750)  
These transfers change the function of the expenditure; for example, the costs of a field trip accumulated in a home-to-school transportation function and resource is transferred to an instructional function and appropriate resource.
  - b. Direct Support Costs Transfers (New Objects 7370 / 7380)  
These transfers do not change the function of the expenditure; they represent support costs accumulated in one program that are transferred to another program. The most prevalent example of direct support costs is maintenance and operation expenditures transferred from one goal to another or from one resource to another.
  - c. Indirect Costs Transfers (Objects 7310 / 7350)  
Again, these transfers do not change function; they represent general administrative costs accumulated in Function 7200, General Administration, and are transferred to other programs using the LEA's approved indirect cost rate or a capped rate that may be applicable to some programs.

Participants had a few comments and suggestions related to accounting for direct support and indirect costs, including:

- Better examples in CSAM for December 2003, especially for the new Objects 7370 and 7380. For example, a custodian builds shelves for a classroom. Is this a direct cost, change of function to Instruction, or is this a direct support and keeps the same function? We also need better definition of the related object codes in CSAM.

- Addition of a line to the Program Cost Report (PCR) that calculates the per/unit cost for allocation, as the J380 did. When CDE was developing the SACS version of the PCR, at LEAs' request this information was omitted, as the form was considered already considered too lengthy and complicated.
- Also many did not understand that LEAs should not distribute indirect costs using the indirect cost rate (ICR) to Charter Schools, Fund 09. Indirect costs should not be charged to the charter fund because the expenditures of this fund are not included in the denominator of the ICR calculation. Typically, The administrative expenses that districts charge the charter schools should be recorded as revenue for the district and an expense for the charter school.

### 3. Definition of Function 7700, Centralized Data Processing

The CSAM definition was reviewed, and we reiterated that only district-wide data processing costs that benefit the entity as a whole should be charged to Function 7700. As described in the manual, costs of stand-alone PCS should be charged to the function utilizing the PC. Costs of instruction-related technology should be charged to Function 2420. If an LEA uses Function 7700 to accumulate all technology costs, instruction-related costs should be identified and transferred to Function 2420, perhaps on a work order basis or on a number of workstations basis. At the end of the year (i.e., before the unaudited actuals are prepared), only district-wide technology costs should remain in Function 7700.

- a. Workstations allocation factor - The workstations allocation factor used in the Program Cost Report and the Indirect Cost Rate calculation used to identify instruction-related costs remaining in Function 7700 should not be necessary if these costs are properly accounted for. These two items will be phased out at some point.

### B. Accounting for Retiree Benefits

See **Attachment B** discussion of accounting for retiree benefits, reasons for revising previous guidance and other alternatives considered.

### C. Board Member Stipends

Consensus is that existing guidance in CSAM is appropriate and they should be reported as salary in Object 2300, not reported in Object 5800.

D. Accumulated Depreciation Account Balances

See **Attachment C** for detail regarding the appropriate treatment of accumulated depreciation account balances in SACS.

E. Accrual and Deferral of Revenue

Based on advice from GFOA, CDE has determined it will not be necessary to add a long-term receivable object. Instead, use a regular receivable account. Auditors can break out on the financial statements if they wish. Any Long-term portion of receivables must be disclosed in footnotes. This discussion related to the long-term receivable for the special ed settlement. Another example discussed is donated land that was sold, resulting in a long-term note receivable.

F. Deposit Redevelopment Funds into Fund 40

As discussed in prior meetings, we have opened Fund 40, Special Reserve Fund for Capital Outlay Projects, to miscellaneous sources of capital projects funding that do not fit neatly into one of the established capital project funds. In response to a request made at the last meeting, we will allow the non-revenue limit redevelopment funds to be directly deposited to Fund 40.

G. Collection of “Mello-Roos” Data: Two New Funds

See **Attachment D** for detail on the establishment of Funds 49, Capital Project Fund for Blended Component Units, and 52, Debt Service Fund for Blended Component Units.

H. Resources in Other Funds

In response to GASB 34 requirements, specific resources are needed to differentiate programs because the fund distinction is lost in combining the funds for reporting purposes. The new resources will be available for optional use in 2002-03, and are required for 2003-04.

1. OPSC facilities projects – 100 user-definable resources in the range 7701-7799; will roll to 7710 for reporting in SACS.
2. State apportionment for Adult Education – Resource 6390
3. Deferred Maintenance apportionment – Resource 6205

I. SB X1 18 Issues

Caryn Becker talked about new SB X1 18 issues:

We are working on two letters that will be out in the next week or so. The first is the Budget Letter. It is close to being finalized. The second will be an accounting issues letter. This letter will address several points that are not yet fully defined, many of which were brought up at this meeting:

- The legislature gives permission to recognize the deferral of the Revenue Limit apportionment as accounts receivable; however, this guidance does not follow GAAP.

- Recognition of the 2002-03 budget deferrals: entire amount, or just the amounts spent?
- Transfer of up to 50% of actual restricted beginning balances, to the extent of the mid-year cuts suffered.
- LEAs may transfer 50% of the aggregate of restricted beginning balances, not 50% of the beginning balance of each resource.
- The appropriate accounting for the transfer of restricted balances is the use of Object 8990, Contribution from Restricted Programs.
- Not yet resolved is whether LEAs can count not only the beginning fund balance in these restricted programs but deferred revenue in other resources, but this was not settled at the time it was discussed.

### III. Software Issues

#### A. Update to Matrix Tables

The latest update (March 20, 2003) was discussed. The major highlights of this update are:

- Addition of Funds 49 & 52 (discussed in Item II.G. above)
- Addition of new Objects 7370 and 7370 for FY 03-04 (disused in Item II.A.1. above)
- Opening of interfund transfer Objects (83XX) to all Resources

The updated combination tables can be downloaded from:

<http://www.cde.ca.gov/fiscal/sacs/chart.asp>

Scroll down the page and click on “Spreadsheets of Allowable Combinations for State Reporting Purposes”, either Adobe PDF or MS Excel version.

If you do not receive notification of the updates to SACS matrix tables and valid combination tables, you can register to be notified by e-mail at:

<http://inet2.cde.ca.gov/scripts/lyris.pl?enter=sacs-update>

#### B. GASB 34 Software Change Order

CDE discussed a minor change relating to capitalization in the upcoming release of the GASB 34 part of CDE’s software. LEAs will still have the flexibility to not capitalize certain items they charged to Function 8500, Facilities Acquisition and Construction, in their governmental funds (for example, student desks charged as part of a project in a capital project fund, that the LEA doesn’t want to capitalize and depreciate). However, rather than reporting the cost of these uncanceled items in the Facilities Acquisition and Construction function on the government-wide statement of activities, the LEA will need to assign these costs to the function where the depreciation would have been charged if the items had been capitalized (effectively achieving a same-year depreciation of these items). This will be done through a user adjustment to the default conversion entry for capital outlay expenditures. There will be no residual Facilities

Acquisition and Construction costs reported on the government-wide statement of activities.

IV. Other issues

A. Master List of Resources

A couple of people use it. It seemed that nobody had a strong opinion either way if we took it away. However, subsequent to the meeting we received a call from one LEA that relies on this list. Therefore, we have decided to continue to periodically update and post the list to our website.

B. Combination spreadsheets: based on comments we have received, we presented the idea of combining the seven Excel spreadsheets into one Excel workbook. People seemed to like the idea. Due to the extent of the programming involved, this option won't be available for the PDF version of the spreadsheets.

C. LACOE asked about payroll systems paying benefits by resource. Most responded that their payroll systems pay the benefits by Resource.

D. LACOE also asked how many charters are doing construction projects. They have one, said that OPSC had given them construction money. Nobody else knew if their charters were doing that.

V. Charter School Reporting

Caryn Becker talked about the new charter reporting.

1. For 2002/03, Charters do not have to report because we don't have the forms approved yet. CDE is proposing that for 2003/04, Charters will have to report on our transition forms that we are taking to the State Board in April to open a public comment period, and for 2004/05, Charters will have to report in SACS.
2. Each charter will prepare their own financial reports and file them with the authorizing district. The district then reports both their own and the charter reports to their COE. It may be that the data will not be a part of the district's books, but the charter data will be reported to the COE by the district.
3. CDE is trying to get legislation to authorize money to help the charters pay for implementing SACS. LACOE asked what about those charters who have already implemented SACS, and Caryn said that such points would have to be worked out in the legislation that will be written. We will have to wait and see what is passed. CDE is also trying to get money to help COES provide oversight over charters like they do districts.
4. A suggestion was made that CDE develop a separate piece of software for charters, not hold up districts to insert charter data into their SACS software, in Fund 09. Caryn said that perhaps that was possible. The other possibility for the temporary transition reports is an Excel spreadsheet.
5. There were a lot of questions on charters that are now embedded in the LEA's General Fund or are in the LEA's Fund 09. Are we going to

force all charters to use this new format or can LEAs keep accounting for their charters the way they are now?

6. The old question of how to report multiple charters in one Fund 09 was again discussed. Caryn affirmed that CDE wants to see each Charter's data separately, and that this will be part of the 02-03 transition reporting. There has been no decision on how to do this. Some alternatives include utilizing subfunds, school field, goal field, or software that had separate pages within the Fund report.
7. The question came up about how to report the non-profit corporations: either use an enterprise fund, or redesign Fund 09?

VI. Next Meeting: June 3, 2003  
Yolo County Office of Education  
Woodland, CA

**New Objects for Transfers  
of Direct Support Costs**

As we discussed at the January 21 meeting, CDE has created new Objects 7370 and 7380 for transfers of direct support costs, to distinguish transfers of direct support costs from transfers of indirect costs. This is important for users of program reports, who need to ascertain that indirect cost charges do not exceed allowable amounts.

We have modified the use of existing Objects 7310 and 7350, which until now have been for transfers of both direct support and indirect costs, to account only for transfers of indirect costs. We will open the appropriate Fund x Object and Function x Object combinations involving the new Objects 7370 and 7380, and will close those Fund x Object and Function x Object combinations involving Objects 7310 and 7350 that will no longer be appropriate.

Worksheets showing the changes to the existing combinations for Fund x Object and Function x Object are included elsewhere in today's handouts.

These changes take effect for 2003-2004.

We have also renamed the titles of Objects 5710, 5750, 7310, 7350, 7370 and 7380 to be consistent with one another and to emphasize that they are for transfers of costs, as follows:

5710 Transfers of Direct Costs  
5750 Transfers of Direct Costs - Interfund  
7310 Transfers of Indirect Costs  
7350 Transfers of Indirect Costs - Interfund  
7370 Transfers of Direct Support Costs  
7380 Transfers of Direct Support Costs - Interfund

We decided to make these changes now, even though these titles can not be added to CSAM until the December 2003 release, because we are introducing the new Objects 7370 and 7380 now.

CDE intends to issue the following guidance for accounting for retiree benefits. This revises past guidance to be consistent with GASB Statement 34, the OMB A-87, and GASB's recently released exposure draft on accounting for Other Post-Employment Benefits (OPEB).

- 1) If the LEA is funding its retiree benefit costs purely on a pay-as-you-go basis:
  - ⇒ Charge the benefit premiums to Object 37XX, Retiree Benefits. Use the same goal and function [but not necessarily the same resource] in which the employee served before retiring.
  - ⇒ A reasonable and good-faith effort to determine the employee's goal and function before retiring is adequate.
- 2) If the LEA is accumulating assets to fund its future liability for retiree benefit costs, but the LEA retains the ability or option of redirecting the accumulated assets toward another budgetary use (i.e., the LEA's contributions are revocable):
  - ⇒ Accumulate the earmarked assets as a designated reserve in either the General Fund (Fund 01) or the Special Reserve Fund (Fund 17).
  - ⇒ Charge the benefit premiums as in 1) above at the time they are paid. No charges are made to expenditure accounts at the time the assets are earmarked.
- 3) If the LEA is accumulating assets to fund its future liability for retiree benefit costs, and the LEA does not retain the ability or option of redirecting the accumulated assets toward another budgetary use (i.e., the LEA's contributions are irrevocable):
  - ⇒ Establish an irrevocable trust for retiree benefits (see discussion on formation of trusts, following).
  - ⇒ Report the accumulated assets in the fiduciary Retiree Benefits Fund (Fund 71).
  - ⇒ Charge the LEA's contributions as periodic expense charges to Object 37XX in the funds, resources, goals and functions where the employees serve(d).



⇒ Charge the benefit premiums to Fund 71, Function 6000 (Enterprise), Object 5800 (Other Operating Expenditures), at the time they are paid.

Additional issues and background:

Reasons for revising guidance:

- GASB 34 specifically modified the definition of fiduciary funds to emphasize that they are for assets held for others. Previous language to the effect that fiduciary funds might be used for assets “of other funds” has been removed.
- Paragraph 69 of Statement 34 states that fiduciary funds “should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government’s own programs ... trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments.”
- Paragraph 70 states further, “Pension (and other employee benefit) trust funds should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.”
- Most LEAs that offer retiree benefits do so pursuant only to negotiated contract language. Few, if any, have established formal trusts. In the absence of a formal trust, a fiduciary fund is not appropriate.
- If assets accumulated by an LEA toward retiree benefit costs could be reallocated to another use through board decision, or if they could be accessed by the LEA’s creditors such as in the case of a bankruptcy, the assets are available for the LEA’s own programs and cannot properly be considered fiduciary.

Other alternatives considered:

- Some LEAs fund the benefits wholly on a pay-as-you-go basis. Some fund the benefits on a combination pay-as-you-go basis plus an ad-hoc accumulation of assets toward the unfunded liability. Some fund the

benefits on an actuarially determined basis, including accumulation of assets toward the unfunded liability.

- CDE considered whether an Internal Service fund, such as a Self-Insurance fund, would be appropriate for some LEAs. GASB 34 provides that internal service funds can be used “to report any activity that provides goods or services to other funds, departments, or agencies of the primary government ... on a cost-reimbursement basis” (Paragraph 68).
- The accounting for employer contributions to an internal service fund is through periodic expense charges in the funds receiving the service. Internal service funds are appropriate when the full cost of providing the service is measured and recovered through fees or charges.
  - ⇒ With regard to retiree benefits, we understand most LEAs do not take this approach.
  - ⇒ GASB’s OPEB exposure draft provides that unless an employer has 1) contributed funds to a trust, or 2) actually paid benefits or premiums the employer is not considered to have contributed to a plan. In other words, unless contributions are irrevocable, they are not reportable as plan contributions. Therefore, accounting for employer contributions via periodic expense charges would not be appropriate.
  - ⇒ But until GASB’s OPEB exposure draft is issued, it is not GAAP, and LEAs are not required to abide by it. If LEAs and their auditors believe an internal service fund is an appropriate accounting treatment given the LEA’s approach to funding its retiree benefits, at present there is no standard to the contrary.
  - ⇒ Assuming the OPEB standard is issued as drafted, CDE will issue guidance at that time that is consistent with GAAP for charging employer contributions.

Formation of an irrevocable trust:

- CDE’s preliminary research indicates it is not difficult and not expensive to form an irrevocable trust that would protect the LEA’s contributions for their intended purpose, i.e., for retiree benefits – especially if LEAs combined their efforts
- Formation of a trust does not obligate the LEA to fund the retiree benefits plan at any particular level or on any particular basis – the LEA could continue to fund it at its discretion but its contributions would be protected.

**Reporting Accumulated Depreciation account balances in SACS**

CDE has researched and come to a decision relating to how our software should treat the balances of contra-asset accounts for accumulated depreciation of capital assets. These accounts are:

- 9425 Accumulated Depreciation, Improvements of Sites
- 9435 Accumulated Depreciation, Buildings
- 9445 Accumulated Depreciation, Equipment

These accounts are reported in the asset section of the Statement of Net Assets along with the capital asset accounts to which they relate. Capital asset account balances are debits, but accumulated depreciation account balances are credits. They reduce the carrying value of the assets to which they relate (hence the term, contra-assets). This gave rise to some question of whether our SACS software should treat them as debit accounts with negative balances, or credit accounts with positive balances.

CDE has determined that contra-asset accounts for accumulated depreciation should be reported as debit accounts, and their credit balances displayed as negatives. Of the various issues CDE considered, the most compelling is how the financial data we post on our web site, as well as on the Ed Data web site, appears to non-accountants who access it. For example, if a non-accountant saw capital asset accounts and contra-asset accounts all displayed with positive balances, it would appear that all the positive balances should be added together, rather than the contra-assets being subtracted.

**What LEAs need to do:** This change is effective for the 2002-2003 fiscal year. LEAs need to ensure that their output files show the credit balances of these contra-asset accounts as negatives, so they will be imported into the SACS software as negatives for financial reporting.

**What CDE will do:** For a few LEAs, this is a reversal of guidance we gave and a software change we made last year. For those few LEAs who reported accumulated depreciation last year as credits with positive balances, we will adjust the accumulated depreciation to debits with negative balances when we include them in the software database for this year. CDE will also correct the California School Accounting Manual (CSAM), Part I, which incorrectly describes contra-assets as credit accounts.

CDE has determined that we will begin collecting data from LEAs for Mello-Roos Community Facility Districts (CFDs) and similar entities effective for 2002-2003 [but see below]. This will ensure that statewide costs for educational facilities are accurately reflected in statewide reports, eliminate the frustration for LEAs of having to exclude Mello-Roos data before reporting to CDE, and expedite LEAs' conversion for government-wide reporting under GASB Statement 34.

We will follow the practice that if an LEA is required by Generally Accepted Accounting Principles (GAAP) to report another entity, such as a Mello-Roos CFD, as a blended component unit within the LEA's audited financial statements, then CDE will collect that blended component unit entity's data along with the LEA's.

We have assigned the following funds for this purpose:

For the capital project(s): Fund 49, [title not yet established]

For the related debt service: Fund 52, [title not yet established]

Mello-Roos tax receipts collected by the LEA should be recorded in Object 8622, Other Non-Ad Valorem Taxes. Mello-Roos proceeds collected by another agency's Mello-Roos CFD, of which the LEA is just a beneficiary, should be reported in Object 8799, Transfers In From All Others.

CDE will include the appropriate account combinations for these new funds in the upcoming update to the tables of valid combinations.

Questions for discussion:

- Are other similar component units not currently being reported?
- The Mello-Roos act authorizes financing of public services and facilities. Most of the authorized services appear to be outside the scope of LEAs (fire or police protection for example). Any exceptions?
- Our understanding is that most LEAs who have Mello-Roos CFDs account for the Mello-Roos transactions but remove them before submitting their data to CDE. Is it reasonable to request that LEAs report Mello-Roos data for 2002-2003?

Question for extra credit:

- What were Senator Mello's and Senator Roos's first names?